

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Pride, Louisiana
December 31, 2010**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/3/11

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June 24, 2011

Independent Auditor's Report

Board of Directors
Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Pride, Louisiana

We have audited the accompanying statement of financial position of the

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
(A Non Profit Organization)
Pride, Louisiana**

as of December 31, 2010, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund are intended to present the financial position, changes in net assets and cash flows that are attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2011, on our consideration of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Yours truly,

Hawthorn, Weymouth & Carroll, L.L.P.

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Statement of Financial Position
December 31, 2010**

A s s e t s

Current Assets

Cash and cash equivalents	\$1,274,450
Prepaid expenses	<u>245,638</u>
<u>Total current assets</u>	<u>1,520,088</u>

Fixed Assets

Equipment	8,507,789
Less: depreciation to date	<u>4,053,270</u>
<u>Total fixed assets</u>	<u>4,454,519</u>

<u>Total assets</u>	<u>5,974,607</u>
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L i a b i l i t i e s a n d N e t A s s e t s

Current Liabilities

Accounts payable	671,504
Unearned revenue	<u>848,584</u>
<u>Total current liabilities</u>	<u>1,520,088</u>

Net Assets

Unrestricted	<u>4,454,519</u>
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<u>Total liabilities and net assets</u>	<u>5,974,607</u>
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The accompanying notes are an integral part of these statements.

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Statement of Activities
Year Ended December 31, 2010**

<u>Unrestricted</u>	
Revenue	
State appropriation	\$3,085,751
Interest income, restricted	<u>2,257</u>
<u>Total revenue</u>	<u>3,088,008</u>
Expenses	
Program Services	
Dues and subscriptions	1,768
Hospital EMR systems	859,972
LSU contract services	<u>254,549</u>
<u>Total program services</u>	<u>1,116,289</u>
Operating Services	
Advertising	2,070
Maintenance of Integration Engine	233,619
Maintenance of EMR systems	1,020,937
Office supplies	9,532
Depreciation expense	1,699,931
Postage	408
Printing	3,138
Rent - office space	7,200
Staff professional fees	437,564
Travel	34,329
Telephone	<u>8,019</u>
<u>Total operating services</u>	<u>3,456,747</u>
<u>Total expenses</u>	<u>4,573,036</u>
Changes in Net Assets	<u>(1,485,028)</u>
Net Assets	
Beginning of year, as previously reported	-
Prior period adjustment	<u>5,939,547</u>
Beginning of year, as restated	<u>5,939,547</u>
Net Assets, End of Year	<u>4,454,519</u>

The accompanying notes are an integral part of these statements.

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Statement of Cash Flows
Year Ended December 31, 2010**

Cash Flows From Operating Activities	
Increase (decrease) in net assets	(\$1,485,028)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,699,931
Changes in operating assets and liabilities	
(Increase) decrease in:	
Accounts receivable	54,410
Prepaid expenses	(245,638)
Increase (decrease) in:	
Accounts payable	189,226
Unearned revenue	<u>(1,185,752)</u>
<u>Net cash used in operating activities</u>	<u>(972,851)</u>
Cash Flows From Investing Activities	
Purchase of equipment	<u>(214,903)</u>
<u>Net cash used in investing activities</u>	<u>(214,903)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,187,754)
Cash and Cash Equivalents, beginning of year	<u>2,462,204</u>
Cash and Cash Equivalents, end of year	<u><u>1,274,450</u></u>

The accompanying notes are an integral part of these statements.

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2010**

Note 1-Nature of Activities

The Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund (Fund) is a restricted fund of the Rural Hospital Coalition, Inc. (Coalition), used to report activity related to the State of Louisiana appropriations paid to the Coalition for disbursement in accordance with contractual agreements between the Coalition and the Louisiana Department of Health and Hospitals. This Fund is an integral part of the basic financial statements of the Coalition, and accordingly, is included in the Coalition's financial statements. The Fund is used to report the Coalition's receipt, custody, and disbursement of funds from the State of Louisiana, which management considers a quasi governmental operation.

On June 24, 2007, the Coalition entered into a cooperative endeavor agreement, including amendments (Agreement), with the Louisiana Department of Health and Hospitals (DHH) to increase access to primary medical care for residents in rural areas of Louisiana, in furtherance of Act 203 of the 2007 Regular Session of the Louisiana Legislature (Act). The Coalition, in conjunction with DHH and the Louisiana State University Health Sciences Center - Shreveport (LSUHSC-S), established an infrastructure known as the Louisiana Rural Health Information Exchange or LARHIX to achieve a public purpose: "to continue the collaboration with rural physicians and rural hospitals in North Louisiana by sponsorship of continuing medical education, furnishing medical consultation to and with physicians and rendering other support as may be appropriate" (Network). The Network shall include LSUHSC-S and rural hospitals located in Louisiana north of an east/west line drawn through Bunkie, Louisiana, and any other health care providers that the Network deems appropriate (Catchment Area). The Coalition shall, in conjunction with LSUHSC-S, select the rural hospitals operating in the Catchment Area which may receive technical and financial support made available, pursuant to the Act, for acquisition of a hospital information system (IT System), after signing an agreement, the form of which was pre-approved by DHH and the Coalition. Procurement of IT Systems follows a process similar to that specified in the Telecommunications and Data Processing Procurement Law LSA RS 38:2234. If a hospital fails to fully participate in the Network or timely acquire or utilize the health information system, the Coalition may select a replacement hospital and transfer any unobligated funds and to the extent possible transfer the acquired IT System hardware and software to a replacement hospital. The Coalition, through LARHIX, shall provide the Network with an Integration Engine (provides communication software whereby hospitals using different software may communicate with other healthcare providers) during this Agreement that shall be used for the public purpose. Should DHH in conjunction with the Rural Hospital Coalition and LSUHSC-S determine the Integration Engine and Network are no longer utilized in furtherance of the public purpose, the Integration Engine shall revert to the State. Each annual cooperative endeavor, as well as amended and restated versions, provides a budget and guidance regarding the disbursement of the respective annual appropriations from the State of Louisiana. Each appropriation is deposited into a restricted, interest bearing account, all of which must be used consistent with the annual agreement in furtherance of the public purpose.

**Rural Hospital Coalition, Inc. -
LARRIX Appropriation Fund
Notes to Financial Statements
December 31, 2010**

Note 1-Nature of Activities (Continued)

The second year of the cooperative endeavor covered the state fiscal year July 1, 2008, through June 30, 2009, and the term of the contract terminates June 30, 2014 contingent upon and limited by annual appropriations. Act 19 of the 2008 Regular Session of the Louisiana Legislature provided DHH with \$13,547,023 of funding for the July 1, 2008 through June 30, 2009 state fiscal year to be used for continuation and expansion of the IT Systems and technical support in the Catchment Area. Upon execution of this agreement and submission of an acceptable business plan to DHH, payments were made to meet initial expenses. Quarterly payments thereafter were made and scheduled to be made as cost reports were submitted to DHH and progress reports demonstrated satisfactory progress, achievement of goals, and attaining benchmarks which have been or are expected to be met.

The third year of the cooperative endeavor covered the state fiscal year July 1, 2009 through June 30, 2010. The prior year contract was amended on December 1, 2009 to reflect the current state fiscal year appropriation and budgeted expenses of \$1,900,000.

The fourth year of the cooperative endeavor covered the state fiscal year July 1, 2010 through June 30, 2010. The state fiscal appropriation is \$1,900,000.

Note 2-Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant assets and liabilities. The Fund's financial statements are presented similar to a special purpose fund, without budgetary comparisons, which allows reporting expenses in captions similar to the budget approved by DHH.

B. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

C. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The captions "cash and cash equivalents" includes only amounts whose use is limited by agreement between the State of Louisiana and the Coalition.

**Rural Hospital Coalition, Inc. -
LARRIX Appropriation Fund
Notes to Financial Statements
December 31, 2010**

Note 2-Summary of Significant Accounting Policies (Continued)

D. Fixed Assets

The Fund follows the practice of capitalizing, at cost, all expenses for fixed assets in excess of \$1,000. Depreciation is provided for, principally on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives of five years.

E. Contributed Services

The Coalition bears most of the administrative, legal and accounting costs related to administration of the appropriated funds. Neither revenue nor expense is recognized for the value of Coalition services within the Fund financial statements.

F. Income Taxes

The Fund is an integral part of the financial statements of the Coalition, which is exempt from income taxes under Internal Revenue Code Section 501(c)(6) and the Louisiana Revenue Code. The Fund's activity is considered to be an activity related to the Coalition's exempt purpose and accordingly, no income taxes are reported.

The Coalition adopted the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Coalition recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Coalition has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. With few exceptions, the Coalition is no longer subject to federal, state, or local tax examinations by tax authorities for years before December 31, 2007.

G. Net Assets

The Fund has no net assets, as all funds are restricted and must be and were expended for the appropriated purpose.

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2010**

Note 2-Summary of Significant Accounting Policies (Continued)

H. Revenue and Recognition

Revenues are limited to appropriations from the State of Louisiana and interest earned on those deposits. Both are restricted as to use by the Agreements between the Coalition and DHH. The agreements define services allowable within the scope of work applicable to the appropriation. Until invoices are submitted to the Coalition and approved by Coalition's management as acceptable under the previous agreements, the appropriation remains unearned and revenue is not recognized. As invoices are approved for payments, equal dollar amounts are reported as accounts payable, or expenses and earned revenue.

Expenses are reported in categories similar to those prescribed within the Fund's budgets as approved by DHH. As such, capital outlays, program service costs, and operating services are all fully expensed when paid to match with the appropriations revenue. Staff professional fees and LSU contract services are contract labor costs. As such, payroll taxes and benefit costs are the responsibility of the contractor. Because funding is year-to-year, it is impractical to hire staff and establish benefit packages necessary to hire qualified staff as employees.

I. Recent Accounting Pronouncements

The Coalition adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") as the single source of authoritative accounting principles generally accepted in the United States of America ("U.S. GAAP"). All guidance in the Codification carries an equal level of authority. After the effective date of the Codification, all nongrandfathered accounting literature not included in the Codification is superseded and deemed nonauthoritative. FASB will issue Accounting Standards Updates, which will serve to update FASB ASC, provide background information about the guidance and provide the basis for conclusions on the changes to FASB ASC. FASB ASC is not intended to change U.S. GAAP.

Note 3-Concentration of Risk

At various times during the year, cash and cash equivalents on deposit with one banking institution exceeded the \$250,000 insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis, along with their balances in cash and cash equivalents, to minimize this potential risk.

Note 4-Economic Dependency

The LARHIX program is funded through State of Louisiana appropriations. If the state should fail to appropriate future funds, the LARHIX program would no longer be able to operate without a new source of funding.

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2010**

Note 5-Prior Period Adjustment

During 2010, the Fund discovered an error in the recording of fixed assets. The error resulted in an increase in net assets in the Statement of Financial Position. Changes to the balances are as follows:

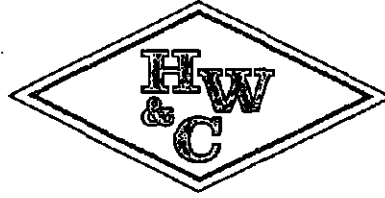
Net Assets, beginning of year, as previously stated	\$ —
Increase for recording of fixed assets, net of depreciation	<u>5,939,547</u>
Net Assets, beginning of year, as restated	<u>5,939,547</u>

Note 6-Subsequent Events

The Fund has evaluated all subsequent events through June 24, 2011, the date the financial statements were available to be issued.

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June 24, 2011

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Pride, Louisiana

Members of the Board:

We have audited the financial statements of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund as of and for the year ended December 31, 2010, and have issued our report thereon dated June 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a significant deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513 this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorne, Weymouth & Carroll, L.L.P.

**Rural Hospital Coalition, Inc. -LARHIX Appropriation Fund
Schedule of Current Year Audit Findings
Year Ended December 31, 2010**

Findings - Financial Statement Audit

None.

**Rural Hospital Coalition, Inc. -LARHIX Appropriation Fund
Schedule of Prior Year Audit Findings
Year Ended December 31, 2009**

Findings - Financial Statement Audit

2009-01 Contractor Expense Reports/Accounts Payable Invoices

Condition

In testing of 25 accounts payable invoices, the following was noted:

- ▶ One invoice was not paid timely with no explanation as to why payment was delayed.
- ▶ Three invoices did not have concise descriptions of the services rendered.
- ▶ Three contractor expense report requests were not submitted timely and had personal and business expenses commingled in the support making it difficult to ensure that personal expenses were not being reimbursed.

In tests of travel and tests of unprocessed invoices, it was further noted that invoices are not always submitted timely for reimbursement, do not always clearly distinguish personal expenses from business expenses and are not always processed and paid timely to contractors.

Recommendation

Invoices submitted by participating network hospitals for reimbursement should be paid timely or else documentation retained with the invoices as to why payment was withheld (such as work not completed or product not operational as per contract agreement). Vendor invoices submitted by participating network hospitals should be descriptive in the services provided or else sufficient documentation be included with the invoice as to what project the services were related to and their business rationale.

Management's Response

Steps were immediately taken by management to write explanations on all invoices that are not timely paid. Management is now clearly and concisely documenting all services rendered. All expense reports for reimbursement must be turned in by the 15th of the following month. All personal expenses are kept separate from business expenses. Detailed explanations are documented in the expense reports.

Resolution: This finding was resolved in the current year.